

# LEGISLATIVE AUDIT COMMISSION



Review of  
State Toll Highway Authority  
Financial and Compliance Audit  
Year Ended December 31, 2003

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**REVIEW: 4212**  
**STATE TOLL HIGHWAY AUTHORITY**  
**FINANCIAL AND COMPLIANCE AUDIT**  
**YEAR ENDED DECEMBER 31, 2003**

**FINDINGS/RECOMMENDATIONS - 11**

**ACCEPTED - 5**  
**IMPLEMENTED - 6**

**REPEATED RECOMMENDATIONS - 7**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 17**

This review summarizes an audit of the Illinois State Toll Highway Authority filed with the Legislative Audit Commission July 15, 2004. The auditors performed a financial and compliance audit for the year ended December 31, 2003. The auditors stated that the financial statements were fairly presented.

The State Toll Highway Authority was established in 1968 to provide the construction, operation, regulation and maintenance of a system of toll highways to accommodate the traveling public through and within the State. The Authority has the power and responsibility to establish and collect tolls sufficient to pay for maintenance, repairs, regulation, and operation of the toll highway system and to meet the principal and interest bond funding requirements. The Authority does not receive any governmental appropriations. It was awarded a federal grant for value pricing. Under the provisions of State law, no bond issue of the Authority, or any interest thereon, is an obligation of the State.

The Authority's predecessor, the Toll Highway Commission, issued revenue bonds totaling \$493 million. Since 1985, the Authority has issued over \$2 billion in bonds.

The operations of the Authority are administered by a Board of Directors, which include the Governor and Secretary of the Illinois Department of Transportation. Mr. Jack Hartman was the Executive Director during the audit period. Mr. Hartman was appointed Executive Director in January 2003. He had no previous association with the Tollway.

The number of employees during the years indicated was:

	<b>Full Time</b>	<b>Part Time</b>	<b>Temporary</b>	<b>Total</b>
2003	1,617	277	26	1,920
2002	1,680	276	64	2,020
2001	1,724	317	31	2,072

The 2003 data includes 148 State troopers, 407 full-time toll collectors, 58 full-time lane walkers, and 50 plaza supervisors and assistants.

### **Financial Information**

Appendix A provides a summary of toll revenue by class of vehicle and other revenue sources. Average daily transactions represent the average daily number of vehicles passing through toll plazas. Total revenue increased from \$372,046,163 in 2002, to \$433,491,723 in 2003, an increase of \$61,445,560, or 16.5%. Net receivables were \$27 million in 2003, up 268% due to the new Violation Enforcement System that started in January 2003.

Appendix B presents the statement of net assets for two years ended December 31, 2003 and 2002. Total assets were \$2,418,928,436 as of December 31, 2003 compared to \$2,433,284,694 at December 31, 2002. Capital assets comprise the largest portion of the Authority's assets, which included the historical cost of land, roadway, and structures, buildings and related improvements and equipment. Expenses for the maintenance and repairs of the roadway and related improvements are charged to operations when incurred. The largest 2003 liability of the Authority totaled \$655,627,204 for outstanding revenue bonds.

### **Changes in Net Assets**

Appendix C is a summary of the revenues, expenditures, and other changes in net assets for the two years ended December 31, 2003 and 2002. Operating revenues were up over 16%, or \$61 million, in 2003 when compared to 2002, primarily due to the new toll violation enforcement system that started issuing notices in January 2003. Toll revenue was up almost 4%, or \$14.2 million, due to an increase in the number of vehicles passing through the toll plazas. Operating expenses increased by almost 15%, or \$46.7 million in 2003 when compared to 2002 primarily due to an increase in depreciation expense attributed to the depreciable assets capitalized to infrastructure in 2003 and 2002; the increase in services and toll collection expense due to the new violation enforcement system; and the year-end accrual of the first time State of Illinois administration fee. Net assets increased approximately \$11.1 million from 2002 to 2003.

### **Fixed Assets**

Appendix D summarizes the changes in fixed assets for which the Authority was accountable during 2003 and 2002. Property, plant and equipment increased from \$3,705 million as of December 31, 2002 to \$3,838 million as of December 31, 2003, an increase of \$133 million, or 3.6%. The Tollway added almost \$137.7 million in infrastructure while deleting \$2.4 million in vehicles and \$3.7 million in computer equipment. Construction in progress was \$183,433,984 as of December 31, 2003.

### **Total Costs and Administrative Costs**

Appendix E summarizes the administrative costs of the Authority for 2003 and 2002 and compares the administrative costs to the Authority's total costs. Administrative costs increased from \$16,740,602 in 2002, to \$24,290,259 an increase of \$7.5 million, or 45%. Administrative costs as a percentage of total costs increased from 5.3% in 2002 to 6.4% in 2003. Total costs increased \$60.3 million due to the new State administrative surcharge and the new toll violation system.

### **Accountants' Findings and Recommendations**

Condensed below are the 11 findings and recommendations presented in the audit report. There were seven repeated recommendations. The following recommendations are classified on the basis of updated information provided by Jack Hartman, Executive Director, in a letter dated October 19, 2004.

#### **Accepted or Implemented**

- 1. Complete reconciliations of toll revenue in a timely manner. Begin a tracking system for the write-ups for variances between actual cash deposited and calculated cash (TC-32s) to monitor the status and location of each form. (Repeated-2002)**

**Findings:** The Tollway did not complete reconciliations of toll revenue timely. Two reconciliations occur for each revenue day. One is for the automatic lanes and one is for the manual lanes. The auditors noted that 10 out of 25 revenue days were not reconciled timely for the automatic lanes. Seven out of 25 revenue days were not reconciled timely for the manual lanes.

The Tollway was not able to locate collector write-ups (TC-32) for variances between actual cash deposited and calculated cash. The auditors tested five revenue days that included 2,233 collector shifts. There were 22 instances of TC-32s being issued, and the Tollway was unable to locate six of 22 TC-32s.

According to the Tollway, reconciliations were not performed on a timely basis due to a limited number of personnel. Timely reconciliations are required to find and correct any discrepancies between the data received compared to the actual cash collected.

**Updated Response:** Implemented. The Tollway has implemented exception based auditing for manual lanes and continue to audit automatic lanes based upon unusual trends and variances. Reconciliations are being completed in a timely manner. The TC-32s tracking process has been automated.

2. **Input all absences timely to produce an accurate subsidiary ledger that identifies the actual dollar amount of the accrued sick and vacation pay for all eligible employees. (Repeated-2001)**

**Findings:** The Tollway did not input the sick and vacation payroll records for salaried employees used to document absences into the system in a timely manner to produce an accurate subsidiary ledger. The auditors noted that the Tollway's subsidiary ledger for accrued sick and vacation leave contained errors in the amount of time used by salaried employees. Not all sick and vacation leave that was used by the employee had been deducted from the subsidiary ledger.

**Updated Response:** Accepted. The current paper-based system is only applicable to salaried employees as the hourly employee timekeeping was automated through the ITIME system. Salaried employee wages account for approximately one-third of total payroll expenses. The Tollway is proceeding with the implementation of an automated time and attendance system – the hardware has been received and the system should be fully implemented within six months. Management also intends to issue a directive to all employees informing them that their timecards and absence reports must be submitted to payroll by a certain date after year-end, so that the absences can be input timely. Additionally, the impact of the accruals is limited to financial reporting only; the Payroll Division gathers and recalculates benefit time prior to payout to terminated employees to ensure no overpayment is made.

3. **Implement procedures to ensure the deposit of receipts in the required time frame. (Repeated-1999)**

**Findings:** The Tollway did not deposit monies received in accordance with the time frame set by the Toll Highway Act. The auditors noted 8 of 46 receipts tested were not deposited into the Treasury within five days of collection. Receipts of \$205,273 were deposited sixteen days after collection; receipts of \$102,349 were deposited 11-12 days after collection; and receipts of \$43,259 were deposited 21-30 days after collection, and receipts of \$68,747 were deposited more than 30 days after collection. The receipts tested included concession fees and insurance reimbursements.

The auditors also noted 50 of 61 violation enforcement toll revenue receipts tested were not deposited within five days of collections. Receipts of \$94,414 were deposited 6-10 days after collection, receipts of \$120,592 were deposited 11-20 days after collection,

**Accepted or Implemented - continued**

receipts of \$2,862 were deposited 21-30 days after collection and receipts of \$9,757 were deposited more than 30 days after collection.

According to the Tollway, there was insufficient data for some checks to determine when they were received. The violation enforcement toll revenue receipts were not made timely due to the volume of participants.

**Response:** Implemented. The Tollway agrees that all funds should be deposited on a timely basis. While the non-toll revenue category cited in this finding comprises a small percentage of Tollway revenues, we have implemented procedures to address the underlying sources of delay. The Tollway implemented a process to capture all transactions entered by the violation cashiers and to provide the ability to balance out activity on a timely basis. This process has decreased the time necessary to balance by 125%.

Resources were stretched in 2003 in an effort to handle the large number of payments resulting from a 2-year backlog of violation notices. The backlog has been eliminated and the Tollway is now issuing current violation notices. Additionally, the Tollway has implemented a process of date stamping all miscellaneous checks when received to improve tracking of miscellaneous receipts.

**4. Take necessary steps to capture all pursuable violations. Begin collection procedures for outstanding violation notices. (Repeated-2000)**

**Findings:** The Tollway did not send out violation notices for all lanes and did not follow up on a timely basis with those violators who did not tender payment or respond to the violation notices.

The Tollway paid an outside contractor \$4.4 million for 2003 for the collection of data, processing of images, mailing of notices and report preparation for the violation enforcement system. The auditors noted that violation notices were not sent to all violators. Also, The Tollway did not exercise its post-judgment enforcement rights with violators who did not send in payment, request a hearing or respond to the notice. If a violator had a hearing and judgment was issued in favor of the Tollway, the Tollway did not pursue post-judgment remedies in a timely manner if the violator did not remit their payment pursuant to the judgment.

The account receivable balance for toll violations as of December 31, 2003 and 2002 was \$39.8 million and \$2.3 million, respectively. The Tollway recorded an allowance for bad debts of \$20 million as of December 31, 2003.

According to the Tollway, violation notices were not being sent due to a managerial decision based on staffing levels, and to allow for the public to adapt to aggressive

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violation enforcement. Also, pending legislation contains an amnesty program for toll scofflaws.

**Updated Response:** Implemented. The Tollway has the most comprehensive toll violation system in the country. Our program won the 2004 IBTTA Toll Excellence Award. We are the only tollway that pursues violators in “coin” lanes. Although we have almost tripled our IPASS lanes (and the opportunity to violate) our violation rate has actually decreased instead of increasing. We feel this demonstrates the effectiveness of our aggressive violation enforcement program. We are now exercising our post-judgment enforcement rights of fine escalation and suspension of drivers licenses for violators who do not pay their fines. We have also retained the services of an outside collection agency to pursue outstanding violation notices.

### **5. Reconcile the general ledger to a subsidiary ledger that accurately identifies the actual dollar amount of the violation receivable. Use this ledger as the basis for recording the financial statement amount for the violation receivable.**

**Findings:** The Tollway did not reconcile the violation receivable recorded in the general ledger, which is the basis for the financial statements, to an accurate subsidiary ledger in a timely manner. There was a difference of \$918,382 between the subsidiary ledger of violators and the amount on the general ledger. Upon notification of the errors in the ledger, The Tollway corrected and produced a new subsidiary ledger that had a remaining unexplained difference of \$96,841.

According to the Tollway, a programming error in the report provided by the outside contractor caused the error in the subsidiary ledger.

**Response:** Accepted. The Tollway is working with the outside contractor to make modifications to the reports used as the violation receivable subsidiary ledger to ensure a higher level of accuracy.

### **6. Implement controls to identify any violations resulting from improper transponder usage. (Repeated-2002)**

**Findings:** The Tollway did not have the proper internal controls in place to classify all IPASS transactions properly in some of the lanes.

Some of the lanes are equipped with vedet loops that are embedded in the ground. Vedet loops count “masses of metal” as they pass through the lane. The lane equipment is able to read the IPASS transponder and “collects” the revenue based on the classification of the transponder as it was originally issued. A violation is only recorded in the lanes

**Accepted or Implemented - continued**

affected if there is not a transponder to read or if a transponder is identified as insufficient, invalid, lost or stolen. A violation would not be recorded if a vehicle passed through the lane with a transponder that does not correlate to the class of the vehicle.

**Response:** Accepted. The Tollway is testing a system to collect the proper toll regardless of transponder class. This system has been installed in the IPASS Only mixed-use lanes, which are the lanes most susceptible to this situation. We are working toward installing the system in other lanes, despite the difficulties of implementing this system “after-the-fact” on an old road. The open road tolling system that will be built over the next ten years will be an axle based system and will eliminate this problem.

**7. Follow established procedures to ensure all bank accounts are reconciled in a timely manner.**

**Findings:** The Tollway did not complete bank reconciliations in a timely manner. The auditors noted 75 of 120 bank reconciliations were not completed within 30 days of the month’s end.

**Response:** Implemented. The Tollway is now completing bank reconciliations in a more timely fashion. The finance staff is now done processing the large volume of funds that came in after the implementation of the violation enforcement program plan offer and has resolved this matter.

**8. Begin random audit of telephone extensions, and perform these random audits periodically throughout the entire year. (Repeated-2002)**

**Findings:** The Tollway did not monitor telephone extensions during the year for improper long distance or excessive personal calls.

**Updated Response:** Implemented. Random phone extension audits are being performed in 2004.

**9. Make every effort to monitor lessees’ compliance and to assess appropriate penalties. Also, follow provisions of the lease agreements requiring the deposit of certain funds in interest bearing accounts for the lessees’ benefit.**

**Findings:** The Tollway did not have an adequate system for monitoring lessees’ compliance with their lease agreements.

- Lease agreements were in place with two entities for fuel service and retail services. The Tollway paid real estate taxes for the retail service lessee, but had



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not received reimbursement as of December 31, 2003. Fines, penalties or interest had not been assessed.

- The fuel service lessee's compliance with the maximum allowable selling price charged by the lessee for non-diesel fuel was not verified by the Tollway.
- A separate interest bearing Renewal Bank Account with the fuel service lessee as a co-signer was not established.
- Interest was not calculated and paid to the retail service lessee for a security deposit. The auditors calculated \$5,750 in unpaid interest.
- For six of 12 months, neither the retail service rent payment nor the fuel service rent payments were received within the timeframe required by the contract. In the case of the fuel service, for two of the six months, interest was calculated incorrectly. For the remaining four months, interest was not calculated at all.

**Updated Response:** Implemented. The security deposit provisions of the lease have been fully complied with. All interest due to the lessees has been paid. The Oasis Project Management Group is monitoring lessees' compliance with the lease provisions and assessing late fees when due. The Tollway's Enterprise Control & Compliance Unit has begun quarterly reviews of the Oasis Project Management Group to ensure adequate monitoring is occurring.

### **10. Complete the reconciliations for all 12 months of the year to comply with statutory and Comptroller reporting requirements. In the future the Tollway should complete reconciliation within 30 days of receiving the Agency Contract Report from the Comptroller. (Repeated-2002)**

**Findings:** The Authority did not complete reconciliations between the individual contracts, the Agency Contract Report and the Obligation Activity Report. The State Comptroller's Agency Contract Report is a listing of all professional or artistic contracts, leases for real property, other contract leases and construction and other contractual service agreements filed by State agencies. The Agency Contract Report and the Obligation Activity Report was not completed for 11 of the 12 months during the calendar year 2003.

**Updated Response:** Accepted. Tollway staff is making every effort to complete reconciliations for all 12 months in a timely manner.

### **11. Continue to fully implement the remaining 13 management audit recommendations that were either not implemented or were partially implemented.**

#### **Accepted or Implemented - concluded**

**Findings:** In May 2003, the Office of the Auditor General released a management audit of the Tollway, which contained 23 recommendations to improve the performance and

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operations of the Tollway. As part of this compliance audit, the auditors followed-up on the status of the 23 recommendations. Two of the recommendations had not been implemented. Eleven were partially implemented, and the remaining 10 recommendations were fully implemented.

**Updated Response:** Accepted. The Tollway is working toward implementing all 13 remaining management audit recommendations:

- Recommendation #6, Cash Flow Projections and Recommendation #19, Capital and Financial Planning: A comprehensive 10-year capital plan was completed which defines the need to rebuild the Tollway system and the means to finance it.
- Recommendation #2, Planning and Performance Measures: Performance measures have been incorporated into the budget process and metrics will be published on the website.
- Recommendation #4, Hiring Process: A policy on background checks was established, fingerprints were conducted, and a policy was established to prohibit employees from going to work for a contractor. A policy on reference checks has been established.
- Recommendation #5, Overtime: Automated time and attendance system, to be instituted by an outside vendor, will increase oversight of overtime.
- Recommendation #7, Non-Toll Revenues: New non-toll revenue sources have been identified and implanted such as oases revenues, tower co-location revenue, fiber optic leasing and advertising partnerships with Jewel/Osco, PACE and NBC. We are working with IDOT to develop an efficient process for ODV permits.
- Recommendation #10, Toll Collection and Recommendation #11 Toll Collection System Reports: The Violation Enforcement System (VES) has resulted in collections of \$26,246,246 through September 30, 2004, which is on target to more than cover the cost of the contract. Our violation rate has actually decreased despite the tripling of IPASS lanes, which are more susceptible to violations.
- Recommendation #12, Free Passes: The Tollway has several reports currently available and is in the process of developing one summary report on free passes.
- Recommendation #15, Real Estate Records: All real estate files contain the required documentation. We have developed a list of excess property available for sale. We are working on a GIS system that will accurately identify all property owned by the Tollway.
- Recommendation #17, Employee Vehicle Usage: We have reinforced the requirement that monthly vehicle logs be completely filled out and reviewed.
- Recommendation #20, Review of Capital Planning: During 2004 the Planning Department had specific oversight of the consulting engineers' contract.
- Recommendation #22, Benchmarking: The Tollway and its consultants developed 18 benchmarks to be used for performance metrics. Due to the limited time that benchmarking has been in place, changes have not yet been made.

### **Emergency Purchases**

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be

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impossible to conduct bidding. It provides a general exemption for emergencies, "Involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make "quick purchases", including but not limited to items available at a discount for a limited period of time.

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During calendar 2003, the Authority filed five affidavits for an emergency purchase totaling \$298,320.00. Of that amount, \$243,507.50 was for various repairs, and \$54,812.50 was for computer support.

### **Headquarters Designations**

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time. In July 2003, the State Toll Highway Authority reported it had two employees assigned to locations other than official headquarters.